

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Franklin-Quincy Township Water Authority	County Houghton
Fiscal Year End December 31, 2006	Opinion Date June 27, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

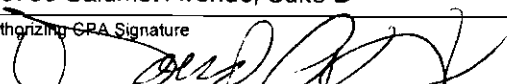
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) David A. Heinonen, CPA, PC		Telephone Number (906) 337-2910	
Street Address 56730 Calumet Avenue, Suite D		City Calumet	State MI
Zip 49913		License Number 1101023766	
Authorizing CPA Signature 		Printed Name David A. Heinonen	

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David A Heinonen CPA PC

Board Members
Franklin-Quincy Township Water Authority
Hancock, MI 49930

We have audited the accompanying financial statements of the Franklin-Quincy Township Water Authority as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Franklin-Quincy Township Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the Franklin-Quincy Township Water Authority as of December 31, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated June 27, 2007 on our consideration of the Franklin-Quincy Township Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards**, and should be read in conjunction with this report in considering the results of our audit.

As described in Note A to the financial statements, the Authority has implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, **Basic Financial Statements- and Management's Discussion and Analysis-For State and Local Governments**, as amended and interpreted.

The Management's Discussion and Analysis on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

David A. Heinonen, CPA, PC

Calumet, Michigan
June 27, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Franklin-Quincy Township Water Authority's (Authority) financial performance provides an overview of the financial activities for the year ended December 31, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

The Authority's net assets were reported for the first time, in 2005, within the provisions of GASB 34. Net assets for the Authority were reported at \$1,623,557, and \$1,663,844, for 2006 and 2005 respectively.

The Authority's operating revenues totaled \$61,902 or 99.4% in 2006, and \$63,332, or 99.2% of total revenues, in 2005; and, operating expenses totaled \$76,065 or 74.1 of total expenses in 2006, and \$76,854 or 74.1% of total expenses in 2005.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 10) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

REPORTING THE AUTHORITY AS A WHOLE

Our analysis of the Authority as a whole begins on page 8. One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets—the difference between assets and liabilities – as one way to measure the Authority's financial health, or *financial position*. Over time, increases or decreases in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the local population, and related demographics of our water customers.

In the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets, the Authority's activities are reported as business-type activities:

Business-type activities—The Authority charges fees to its water customers to help it cover all or most of the costs of services it provides.

REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS

Our analysis of the Authority's major activities begins on page 8. The financial statements provide detailed information on all of the Authority's activities. The Authority uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

Proprietary funds – The Authority charges water fees for the distribution services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets.

THE AUTHORITY AS A WHOLE

The Authority's combined net assets at December 31, 2006 decreased \$40,287 from December 31, 2005.

**Table 1 -
Net
Assets**

Assets		
	2006	2005
Current and other assets	\$ 59,581	\$ 57,097
Capital assets (net)	2,157,473	2,206,562
Total assets	2,217,054	2,263,659
Liabilities		
Current and other liabilities	14,499	12,815
Long-term liabilities	579,000	587,000
	593,499	599,815
Net Assets		
Investment in capital assets, net of related debt	1,563,974	1,612,562
Restricted net assets	36,279	28,900
Unrestricted net assets	23,304	22,382
Net Assets	\$ 1,623,557	\$ 1,663,844

Net assets of the Authority stood at \$1,623,557, versus \$1,663,844 last year. Unrestricted net assets were \$23,304, and \$22,382, and restricted net assets were \$36,279, and \$28,900 respectively. In general, the Authority's unrestricted net assets are used to fund operations of the Authority, and restricted assets are used for bond principal and interest repayments, bond reserves, and water system repairs.

Table 2 - Changes in Net Assets

	2006	2005
Revenues		
Program revenues: Charges for services	\$ 61,902	\$ 63,332
Program grants and subsidies	0	0
General revenues:		
Other income	0	0
Unrestricted investment income	396	509
Total revenues	62,298	63,841
Program Expenses		
Operating expenses	76,065	76,854
Bond interest	26,520	26,835
Total expenses	102,585	103,689
Increase in net assets	(40,287)	(39,848)
Net assets - beginning of year	1,663,844	1,703,692
Net assets - end of year	\$ 1,623,557	\$ 1,663,844

BUSINESS-TYPE ACTIVITIES

Revenues for the Authority totaled \$62,298 in 2006 and \$63,841 in 2005. The Authority's water customer base has remained relatively constant from year to year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006, the Authority had \$2,465,341, the same as in 2005, invested in a variety of capital assets including land, equipment and water supply system as follows:

Table 3 – Capital Assets at December 31, 2006 Business – Type Activity

	<u>2006</u>	<u>2005</u>
Land and improvements	\$ 26,700	\$ 26,700
Water supply system	2,429,478	2,429,478
Equipment	9,163	9,163
Total Cost	2,465,341	2,465,341
Less: accumulated depreciation	(307,868)	(258,779)
Net Capital Assets	\$ 2,157,473	\$ 2,206,562

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Table 4 - Final Budget versus Actual Results - December 31, 2006 and 2005
Selected Operating Revenues and Expenses

	<u>2006</u> <u>Final Budget</u>	<u>2006</u> <u>Actual</u>	<u>2006</u> <u>Variance</u>
Program revenues-water fees	70,060	61,902	8,158
Cost of Water	\$ 8,050	\$ 9,349	\$ (1,299)
Wages and taxes	8,635	7,803	832
Administrative	3,250	4,129	(879)
Supplies	1,200	2,311	(1,111)
Insurance	2,900	2,854	46
Miscellaneous	400	310	90
	24,435	26,756	(2,321)
	<u>2005</u> <u>Final Budget</u>	<u>2005</u> <u>Actual</u>	<u>2005</u> <u>Variance</u>
Program revenues-water fees	68,224	63,841	4,383
Cost of Water	\$ 8,050	\$ 8,063	\$ (13)
Wages and taxes	8,635	7,662	973
Administrative	3,250	3,138	112
Supplies	1,200	4,287	(3,087)
Insurance	2,900	2,871	29
Miscellaneous	400	192	208
	24,435	26,213	(1,778)

The Authority's appointed officials considered many factors when setting the budget for the fiscal year 2006 budget. In the upcoming year, we do not anticipate any significant change in the number of customers or their related consumption that would provide any substantial change in revenues. There continues to be a variety of inflationary costs and expense issues. All of these were taken into consideration during the 2006 budget process.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Authority's Chairperson.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY
-PROPRIETARY FUND
STATEMENT OF NET ASSETS
December 31, 2006

CURRENT ASSETS

Cash and cash equivalents	\$	8,422
Accounts receivable, net		6,487
Prepaid expenses		950
Total Current Assets		<u>15,859</u>

RESTRICTED ASSETS-CASH

36,279

NONCURRENT ASSETS

Land	26,700
Water supply system	2,429,478
Equipment	9,163
	<u>2,465,341</u>
Accumulated depreciation	(307,868)
Total Noncurrent Assets	<u>2,157,473</u>

OTHER ASSETS

Deferred bond issue costs	8,800
Accumulated amortization	(1,357)
Total Other Assets	<u>7,443</u>

TOTAL ASSETS

\$ 2,217,054

LIABILITIES

Accounts payable	\$	1,373
Accrued expenses		723
Payable from restricted assets:		
Accrued interest		4,403
Current maturities on revenue bonds		8,000
Total Current Liabilities		<u>14,499</u>

LONG-TERM DEBT

Revenue bonds payable	587,000
Current maturities	(8,000)
Total Long-term Debt	<u>579,000</u>

Total Liabilities 593,499

NET ASSETS

Investment in capital assets, net of related debt	1,563,974
Restricted net assets	36,279
Unrestricted net assets	<u>23,304</u>

NET ASSETS

\$ 1,623,557

The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY
-PROPRIETARY FUND
STATEMENT OF ACTIVITIES
For the Year ended December 31, 2006

<u>PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>
BUSINESS-TYPE ACTIVITIES:					
Water Distribution	\$ <u>102,585</u>	\$ <u>61,902</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(40,683)</u>

General Revenues:

Unrestricted investment earnings	\$	396
Other		0
Total general revenues		<u>396</u>
Change in net assets		(40,287)
Net assets, beginning of year		<u>1,663,844</u>
Net assets, end of year	\$	<u>1,623,557</u>

The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY
-PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year ended December 31, 2006

OPERATING REVENUES

Water fees	\$	61,902
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OPERATING EXPENSES

Cost of water	\$	9,349
Wages and taxes		7,803
Administrative		4,129
Supplies and maintenance		2,311
Insurance		2,854
Miscellaneous		310
Depreciation and amortization expense		<u>49,309</u>

Total Operating Expenses	\$	<u>76,065</u>
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Operating Income (Loss)	\$	(14,163)
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OTHER INCOME(EXPENSE)

Interest Income	\$	396
Interest expense		<u>(26,520)</u>

Total Other Income(Expense)	\$	<u>(26,124)</u>
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Change in Net Assets	\$	<u>(40,287)</u>
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NET ASSETS - BEGINNING OF YEAR	\$	<u>1,663,844</u>
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NET ASSETS - END OF YEAR	\$	<u><u>1,623,557</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY
-PROPRIETARY FUND
STATEMENT OF CASH FLOWS
For the Year ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$	67,549
Cash received from grants and subsidies		0
Cash payments to suppliers for goods and services		(18,253)
Cash payments for wages and related benefits		(7,795)
Net cash from operating activities	\$	41,501

CAPITAL AND RELATED FINANCING ACTIVITIES

Interest paid	\$	(26,520)
Bond Principal		(7,000)
Net cash used by capital and related financing activities	\$	(33,520)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	\$	396
Other		(2)
Net cash from investing activities	\$	394

Net increase in cash \$ **8,375**

CASH AND EQUIVALENTS - BEGINNING OF YEAR \$ **36,326**

CASH AND EQUIVALENTS - END OF YEAR \$ **44,701**

INTEREST PAID IN 2005 \$ **26,520**

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$	(14,163)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		49,309
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable		5,668
Decrease (Increase) in prepaids		3
Increase (Decrease) in accounts payable		700
Increase (Decrease) in accrued liabilities		(16)
Net cash from operating activities	\$	41,501

The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Franklin-Quincy Township Water Authority (Authority) was formed in 1998. The purpose of this Authority is to own, improve, enlarge, extend, and operate a water supply system. The Authority operates under a five member board consisting of two members from Franklin Township, two members from Quincy Township and one member at-large. The Authority completed the water project during 2000 with funding provided by Federal and local sources. The Authority, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Franklin-Quincy Township Water Authority was not a component unit of any other governmental unit.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

During 2005, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets display information about the Authority as a whole. They include all business-type activities of the Authority. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary fund

Proprietary funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are presented using the economic resource measurement focus as defined below.

The Authority utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changing in net assets, financial position and cash flows. All assets and liabilities, whether current or non-current, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets are presented using the accrual basis of accounting.. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Authority’s business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

Cash and Equivalents - The Authority's cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less, and apply to both restricted and unrestricted cash and equivalents.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Restricted Assets - Cash – Certain resources set aside for the repayment of revenue bonds and interest payments, repair, replacements and improvements are classified as restricted assets on the balance sheet because their use is limited by the applicable bond covenant, grant agreement or local ordinance.

Capital Assets – Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Interest costs incurred during construction of assets are also capitalized.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Water supply system	50 years
Equipment	5 years

Compensated Absences – The Authority has no compensated absences for which employees will be paid, such as vacation and sick leave

Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets. Consists of capital assets, net of accumulated depreciation.
2. Restricted net assets. Restricted net assets are those which have limited use due to third-party restrictions
3. Unrestricted net assets. All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Stewardship, Compliance and Accountability:

The ordinance authorizing the Water Supply System Revenue Bonds requires that the Authority establish a Revenue Bond and Interest Redemption Fund, Bond Reserve Fund, and Repair, Replacement and Improvement Fund in amounts not less than the stated annual requirements. The Authority has not provided adequately for the Repair, Replacement and Improvement Fund, and the Bond and Interest Redemption Fund. The reserve accounts are required by the bond ordinance.

	<u>Required Funding</u>	<u>Actual Funding</u>
Bond Reserve	\$ 19,250	\$ 23,499
Repair, Replacement and Improvement Fund	6,050	2,978
Bond and Interest Redemption Fund	<u>15,036</u>	<u>9,802</u>
	\$ 40,336	\$ 36,279

The actual funding column total of \$36,279 represents the three components of the restricted cash and restricted net assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Authority. All annual appropriations lapse at the fiscal year end. The Authority follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Authority prepared and adopts an annual operating budget, for the Fiscal year commencing January 1st. The budget must be approved by at least a three-fifths vote. The operating budget includes proposed expenses and the means of financing them. Prior to November 15th, the budget is legally adopted by Board resolution, and forwarded to the appropriate oversight municipalities and agencies.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has not been amended.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (Continued)

NOTE B – CASH AND INVESTMENTS

The Authority maintains segregated cash and investment accounts which are specific to the activity to which they are available.

CASH AND EQUIVALENTS

Cash and equivalents consisted of:

Cash and equivalents	\$ 8,422
Restricted assets - cash	<u>36,279</u>
TOTAL	\$ <u>44,701</u>

The bank balances were fully insured at December 31, 2006. Cash and equivalents are categorized as follows:

Category 1: Insured or registered, with securities held by the Authority or its agent in the Authority's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Authority's name.

	<u>Category</u>			<u>Market</u>	<u>Bank</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	<u>Balance</u>
Cash and equivalents	\$ 8,422	-	-	\$ 8,422	\$ 8,422
Restricted assets - cash	<u>36,279</u>	<u>-</u>	<u>-</u>	<u>36,279</u>	<u>36,279</u>
	\$ <u>44,701</u>	<u>-</u>	<u>-</u>	\$ <u>44,701</u>	\$ <u>44,701</u>

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE B – CASH AND INVESTMENTS (Continued)

STATUTORY AUTHORITY

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex Sess) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 (Continued)

NOTE B – CASH AND INVESTMENTS (Continued)

INVESTMENTS

Investments (if any) would be stated at market value.

Investments would normally consist of certificates of deposit and be in accordance with State of Michigan Statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. Investments are categorized as follows:

Category 1 – Insured or registered, with securities held by the Authority or its agent in the Authority's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust dept.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust dept or agent but not in the Authority's name.

There were no investments at December 31, 2006.

NOTE C – PENSION PLAN

The Franklin-Quincy Township Water Authority does not provide a retirement plan for employees or board members.

NOTE D – FIXED ASSETS

A summary of Capital assets as of December 31, 2006 is as follows:

	<u>Balance</u> <u>1/1/2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2006</u>
Land	\$ 26,700	\$ -	\$ -	\$ 26,700
Buildings	\$ 2,429,478	\$ -	\$ -	\$ 2,429,478
Equipment	\$ 9,163	\$ -	\$ -	\$ 9,163
	\$ 2,465,341	\$ -	\$ -	\$ 2,465,341
Accumulated depreciation	\$ (258,779)	\$ (49,089)	\$ -	\$ (307,868)
Net Fixed Assets	\$ <u>2,206,562</u>	\$ <u>(49,089)</u>	\$ <u>-</u>	\$ <u>2,157,473</u>

Depreciation expense for the year was \$49,089.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE E – LONG-TERM DEBT

Revenue Bonds

The Authority issues bonds where it pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Water Supply System

Balance, January 1, 2006	\$ 594,000
Principal proceeds	0
Principal payments	(7,000)
Balance, December 31, 2006	<u>\$ 587,000</u>

The annual principal payments on the above bonds, payable on May 1 of each year, increase incrementally from \$7,000 to \$33,000. Interest is payable at the rate of 4.5% on the obligation semi-annually on May 1 and November 1.

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending</u> <u>December 31</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 34,235	\$ 8,000	\$ 26,235
2008	33,875	8,000	25,875
2009	33,515	8,000	25,515
2010	34,133	9,000	25,133
2011	33,728	9,000	24,728
2012-2040	<u>974,728</u>	<u>545,000</u>	<u>429,728</u>
	<u>\$ 1,144,213</u>	<u>\$ 587,000</u>	<u>\$ 557,213</u>

NOTE F – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE G – USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRANKLIN-QUINCY TOWNSHIP WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

NOTE H – ECONOMIC DEPENDENCY

The Authority is dependent upon its local residents as water customers to fund its operations through user fees.

NOTE I – COMMITMENTS AND CONTINGENCIES

The authority receives Federal and state grants for specific purposes that are subject to review and audit by Federal and state agencies. Such audits could result in a request for reimbursement by the Federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Authority's management such disallowances, if any, will not be significant to the Authority's financial statements.

FEDERAL PROGRAMS

David A Heinonen CPA PC

Report on Compliance and on Internal Control over Financial Reporting **Based on an Audit of Financial Statements Performed in** **Accordance with Government Auditing Standards**

Board Members
Franklin-Quincy Township Water Authority
Hancock MI 49930

We have audited the financial statements of the Franklin-Quincy Township Water Authority, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 27, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Franklin-Quincy Township Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under **Government Auditing Standards**. However, we noted an immaterial instance of noncompliance which we have reported to the management of Franklin-Quincy Township Water Authority in a separate letter dated June 27, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin-Quincy Township Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a certain matter involving internal control over financial reporting in its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment could adversely affect Franklin-Quincy Township Water Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is noted as follows:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of the transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

This report is intended solely for the information and use of the board members, management, others with the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

David A. Heinonen, CPA, PC

Calumet, Michigan
June 27, 2007

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Laurium, MI 49913
Email: dheinonen@sbcglobal.net
Phone (906) 337-2910
Fax (906) 337-2912

David A Heinonen CPA PC

June 27, 2007

Board Members
Franklin-Quincy Township Water Authority
Hancock, MI 49930

Dear Board Members:

In planning and performing our audit of the financial statements of Franklin-Quincy Township Water Authority for the year ended December 31, 2006. We considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We noted certain matters involving the internal control and its operation and other items that came to our attention in the normal conduct of our audit that are presented to assist in improving accounting procedures and controls.

Reportable Condition

The size of the Authority's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Authority Board remains involved in the financial affairs of the Authority to provide oversight and independent review functions.

Other

The ordinance authorizing the Water Supply System Revenue Bonds, require that the Authority establish Revenue Bond and Interest Redemption, Bond Reserve and Repairs, Replacements and Improvement accounts in amounts not less than the stated annual requirements. As of December 31, 2006, the Authority had not funded the Bond and Interest Redemption Fund and the Repair, Replacement, and Improvement Accounts, sufficiently. We recommend that the Board review its increased rates and make adjustments as necessary to ensure that these accounts are funded properly.

This report is intended for the information and use of the board members and applicable Federal and State agencies. We will be pleased to discuss this with you at your convenience.

Sincerely,

DAVID A HEINONEN CPA PC